

Message Text

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16

ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

L-02 H-01 IO-10 /081 W

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R 060730Z DEC 74

FM AMEMBASSY LUXEMBOURG

TO SECSTATE WASHDC 4185

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS UNN

C O N F I D E N T I A L LUXEMBOURG 0817

E.O. 11652: GDS

TAGS: EFIN, LU

SUBJ: GOL BANKING COMMISSIONER COMMENTS ON US PLANNED GOLD SALES

REF: STATE 265855

1. ALBERT DONDELINGER, GOL BANKING COMMISSIONER, TOLD ME DECEMBER 4 HE WAS CONCERNED THAT US TREASURY DECISION TO AUCTION OFF A PORTION OF US GOLD RESERVES COULD DRIVE THE PRICE OF GOLD DOWN AT A TIME WHEN IT IS IN THE INTEREST OF THE INDUSTRIALIZED NATIONS TO MAINTAIN THE PRICE AT A HIGH LEVEL. DONDELINGER PROPOSED THAT THE CENTRAL BANKERS MEET SECRETLY IN BASEL IN ORDER TO ESTABLISH GROUND RULES FOR GOLD SALES AND TO AGREE UPON A SECRET MINIMUM PRICE, OR MINIMUM PRICE BAND, FOR GOLD.

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WHEN THE PRICE OF GOLD THREATENED TO SINK TO THIS AGREED

MINIMUM, COMPETENT GOVERNMENT AUTHORITIES (I.E., CENTRAL BANKS OR THE TREASURY) WOULD INTERVENE IN THE GOLD MARKET IN ORDER TO STABILIZE THE GOLD PRICE. DONDELINGER STATED HE IS AWARE OF US DESIRES TO DECREASE THE ROLE OF GOLD IN THE MONETARY SYSTEM AND ACCEPTS THE INEVITABILITY OF A DIMINISHED ROLE FOR GOLD. HE BELIEVES IT WOULD BE FOOLISH, HOWEVER, FOR THE INDUSTRIALIZED NATIONS TO CURTAIL THE VALUE OF AN IMPORTANT FINANCIAL ASSET BY PRECIPITOUS OR SUBSTANTIAL GOLD SALES AT A TIME WHEN THESE SAME NATIONS ARE EXPLORING VARIOUS GOLD-LINKED FINANCIAL GUARANTEES FOR LOANS NEEDED TO FINANCE GROWING DEFICITS. MORE IMPORTANTLY, HE FELT THAT SEVERAL EUROPEAN NATIONS, BECAUSE OF THEIR GREATER NEED (AND PERHAPS DESIRE) TO USE GOLD RESERVES AS FINANCIAL GUARANTEES, MIGHT VIEW THE US ACTION AS ANOTHER INDICATION OF US PROCLIVITY TO GO IT ALONE WITHOUT TAKING INTO ACCOUNT EUROPEAN INTERESTS.

2. I POINTED OUT TO DONDELINGER THAT THE JANUARY 6 SALES OF 2 MILLION GOLD OUNCES WAS ONLY A MINUTE PERCENTAGE OF US GOLD STOCKS AND THAT IT WAS DIRECTED AT SATISFYING INTERNAL US DEMAND ONCE PRIVATE CITIZENS COULD HOLD GOLD. FURTHER, THE US WAS NOT AIMING FOR ANY PARTICULAR GOLD PRICE. DONDELINGER AGREED THAT THIS MAY WELL BE OUR INTENTION BUT THAT THE SITUATION, PARTICULARLY TO THE EXTENT THAT IT IS A PRELUDE TO FURTHER GOLD SALES, CALLS FOR A COORDINATED APPROACH AMONG THE INDUSTRIALIZED NATIONS.FARKAS

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